

Michigan Department of Labor and Economic Growth

Jennifer M. Granholm, Governor
Robert W. Swanson, Acting Director



www.michigan.gov/dleg

Michigan Liquor Control Commission

Annual Financial Report 2005



For Fiscal Year Ended September 30, 2005



JENNIFER M. GRANHOLM
GOVERNOR



NIDA R. SAMONA
CHAIRPERSON

STATE OF MICHIGAN
LIQUOR CONTROL COMMISSION
DEPARTMENT OF LABOR AND ECONOMIC GROWTH
ROBERT W. SWANSON, ACTING DIRECTOR



To the Citizens of Michigan and Other Readers:

Happy 2006 to everyone. This year has been a good one for liquor sales in Michigan, a bright spot in Michigan's important hospitality industry. The Michigan Liquor Control Commission is, by law, the wholesaler of all spirits sold in Michigan. All profits and taxes collected from this wholesaling activity are returned to the people of Michigan through transfer to various state funds for appropriation by the Legislature. This Annual Financial Report is our accounting to you of the liquor wholesaling operation in Michigan, and related activity.

In our unceasing efforts to improve our service to our licensees we now offer license renewal by Internet. In the spring of 2005, for the first time, licensees had the opportunity to renew their license via the Internet. We had 3,310 licenses renewed this way. We expect more people to renew by Internet in the coming years. We are also giving our Enforcement Officers more tools with which to work, using available technology to connect these field people to the Lansing central network and each other. We will continue to enable our Enforcement Officers to provide more and better services for our licensees and citizens.

This Annual Financial Report has an informational section and a statement section. We are required by law to report on the activity of the Liquor Purchase Revolving Fund and the revenue our activities generate for the people of Michigan. We have selected other information to include because we think it will be of interest to our readers.

The Commission holds public hearings twice each year "... for the purpose of hearing complaints and receiving the views of the public with respect to the administration of this act." These hearings are required by law, and usually take place in June and December. You are cordially invited to attend our public hearings or to make comments to the Commission by other means. You may call our offices in Lansing at 517.322.1345 for the time and location of our next public hearing or email us at lccinfo@michigan.gov.

Our website contains a wealth of information. You can learn more about the liquor licensing process, see lists of licenses available, obtain forms, read our frequently asked enforcement questions, look at the Liquor Code and Rules, and much more. View our website at www.michigan.gov/dleg and click on "Liquor Control" in the left-hand column. We encourage you to visit our website anytime you have a question.

Sincerely,

A handwritten signature in cursive script that reads "Nida R. Samona".

Nida R. Samona, Chairperson

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Authority: P.A. 431 of 1984, MCL 436.1221
Cost: 200 copies, \$208.00 (\$1.04 per copy).

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Executive Summary

| REVENUE/EXPENSE ITEM | FY 2004-05 (In millions) | FY 2003-04 (In millions) | % INCREASE (DECREASE) |
|---|-----------------------------|-----------------------------|--------------------------|
| Gross Sales ¹ | \$830.6 | \$813.8 | 2.1 |
| Licensee Discounts | 141.7 | 138.4 | 2.4 |
| Cost of Goods Sold | 503.4 | 493.3 | 2.0 |
| Gross Revenue - Liquor | 185.5 | 182.1 | 1.9 |
| Operating Expenses ² | 59.8 | 57.5 | 4.0 |
| Miscellaneous Revenue | 2.6 | 1.5 | 73.3 |
| Net Income (Not including taxes and grant) ³ | 128.3 | 126.1 | 1.7 |
| Specific Liquor Taxes | 111.6 | 109.3 | 2.1 |
| Other Revenue Collected | 66.7 | 66.8 | (0.1) |
| Total Net Revenue | 306.6 | 302.2 | 1.5 |

NOTES:

(1) For the current fiscal year, off premise licensees (SDDs) accounted for 79.3% or 658.8 million of total liquor sales. On premise licensees, such as bars, restaurants, hotels and clubs accounted for 20.5% or 170.6 million of total liquor sales. Sales to other licensees accounted for .2% of total liquor sales.

(2) Operating Expenses do not include Liquor Purchase Revolving Fund transfers for grants. The transfers for grants of \$3,710,500 for 2005 and \$3,710,500 for 2004 are for Grants to Cities for Fire Protection. Licensing and Enforcement expenses attributable to General Fund are included in Operating Expenses.

(3) Net Income is computed after deducting all operating expenses including the General Fund portion of Licensing and Enforcement expenses. Net Income in the Liquor Purchase Revolving Fund is \$142.2 million.

| OTHER MERCHANDISING STATISTICS | FY 2004-05 | FY 2003-04 | % INCREASE (DECREASE) |
|------------------------------------|-------------|-------------|--------------------------|
| Number of Cases Sold | 6,110,122 | 6,029,155 | 1.3 |
| Average Price Per Case | \$135.94 | \$134.98 | 0.7 |
| Items Available (brands and sizes) | 4,956 | 5,147 | (3.7) |
| Number of Bottles Sold | 105,859,372 | 105,806,664 | 0.05 |
| Average Price Per Bottle | \$7.85 | \$7.69 | 2.1 |

| APPARENT CONSUMPTION STATISTICS | FY 2004-05 | | FY 2003-04 | |
|------------------------------------|-------------|-------------------------|-------------|-------------------------|
| | Gallons | Per Capita ⁴ | Gallons | Per Capita ⁴ |
| Distilled Spirits | 14,579,476 | 1.44 | 14,355,348 | 1.42 |
| Mixed Spirit Drinks | 281,375 | 0.03 | 326,892 | 0.03 |
| Wine (21% alcohol or less) | 17,440,842 | 1.72 | 17,281,174 | 1.71 |
| Beer | 208,365,505 | 20.59 | 211,021,554 | 20.87 |

Note:

(4) Using estimated Michigan population as shown on page 8.

The MLCC

Michigan is one of 18 “control states” as related to the alcohol beverage industry. “Control State” means that state government is responsible for the sale and distribution of certain alcohol beverages as opposed to a license state where wholesale and retail sales of distilled spirits are done by private sellers.

Control states receive the markup revenues that would have otherwise been received by private sellers. They can use this revenue for state expenditures. Control states account for approximately one-third of the U. S. population.



- | | | |
|-------------|----------------|-------------------|
| Alabama | New Hampshire | Vermont |
| Idaho | North Carolina | Virginia |
| Iowa | Ohio | Washington |
| Maine | Oregon | West Virginia |
| Michigan | Pennsylvania | Wyoming |
| Mississippi | Utah | Montgomery Co. MD |
| Montana | | |

Michigan is the wholesaler of liquor in the state by law. It uses private Authorized Distribution Agents to carry out liquor distribution functions on its behalf.

The MLCC is administered by five commissioners, appointed by the governor with the advice and consent of the Senate to four-year, rotating terms. The Chair of the Commission is selected by the Governor. Of the five members, no more than three can be of the same political party.

Two of the Commissioners (one Democrat and one Republican) serve as Hearing Commissioners and conduct hearings on violations of the Liquor Control Code and Administrative Rules of the Commission.

The remaining three Commissioners are designated as the Administrative Commissioners and are responsible for decisions and interpretation of the Liquor Control Code and Rules in the areas of licensing, enforcement, purchasing, merchandising and distribution. They also serve as an appeal board for decisions of the Hearing Commissioners and hear licensing appeals.

The MLCC

The MLCC has two main administrative offices, one in Lansing and one in Farmington. It employs five division directors to oversee the day-to-day operations of the Commission. The Commission staff is organized into five areas:

- **Assistant Attorney General:**
The Attorney General assigns the Alcohol & Gambling Enforcement Division legal staff. These Assistant Attorneys General review all violations for issuance of complaints, present all hearing cases to the Commission, and serve as the Commission's legal counsel.
- **Executive Services:**
This staff provides administrative support to the Commissioners in the areas of hearings, appeals, policy research and public affairs.
- **Financial Management:**
The Financial Management Division provides management support to the Commission in the areas of financial analysis; accounting; budget; tax collections for beer, wine, and spirits; and telecommunications. The division also uses daily order quantities to purchase liquor for sale to licensees. Quotations for all items are processed, authorized for shipment approval, and priced in this division.
- **Licensing:**
The Licensing Division is responsible for preparing retail, wholesaler and manufacturer license applications for Commission actions, as well as issuing approved licenses and handling the subsequent renewals. The division approves labeling and advertising by manufacturers and wholesalers.
- **Enforcement:**
This division is responsible for the investigation of license applicants. The enforcement staff also investigates complaints against current licensees and periodically inspects licensed locations for violations of the Liquor Control Code.

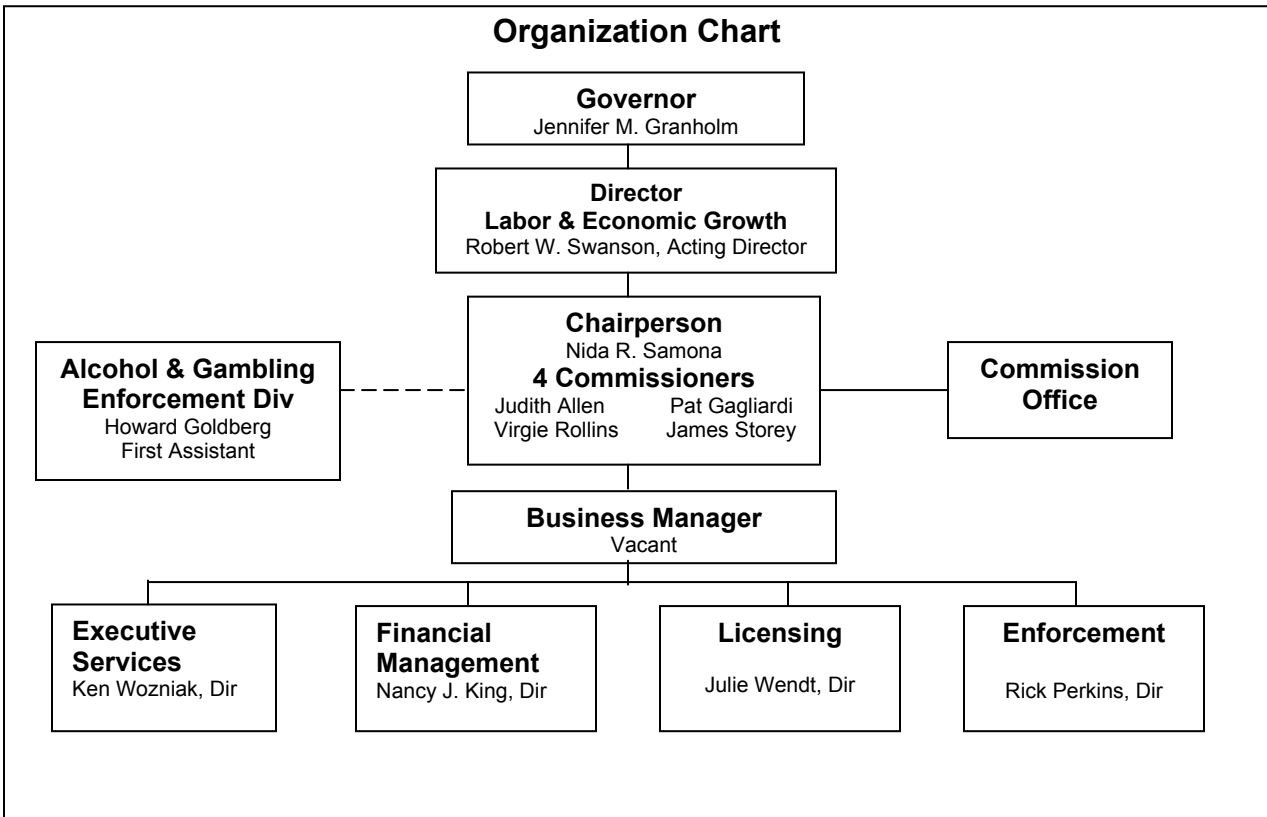
The Liquor Control Code

The Liquor Control Code, P.A. 58 of 1998, as amended, prescribes the duties and responsibilities of the Commission. The Liquor Control Code defines the various types of liquor licenses and the licensing requirements; the State liquor markup rate, liquor licensee discount rate, and tax rates; and the guidelines for operating licensed establishments.

In addition to the Liquor Control Code, the Commission is guided by its administrative rules, which are designed to carry out the laws and assure equal treatment. When filed with the Secretary of State, the rules have the effect of law and are binding on licensees of the MLCC.

MLCC Personnel (as of 9/30/2005)

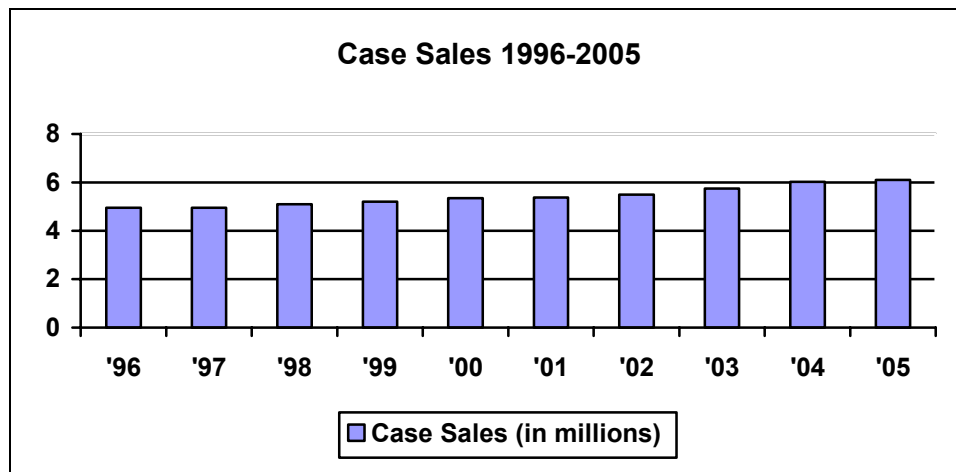
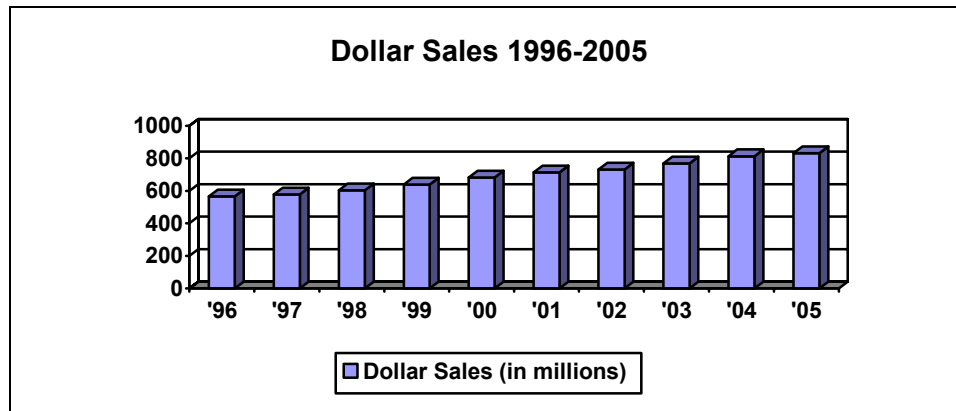
| | <u>Full-Time Employees</u> | <u>Part-Time Employees</u> |
|---------------------------------|--------------------------------|--------------------------------|
| Attorney General Support | 4 | 2 |
| Executive Services | 19 | 1 |
| Financial Management | 19 | 0 |
| Licensing | 44 | 0 |
| Enforcement | 62 | 0 |



Trends

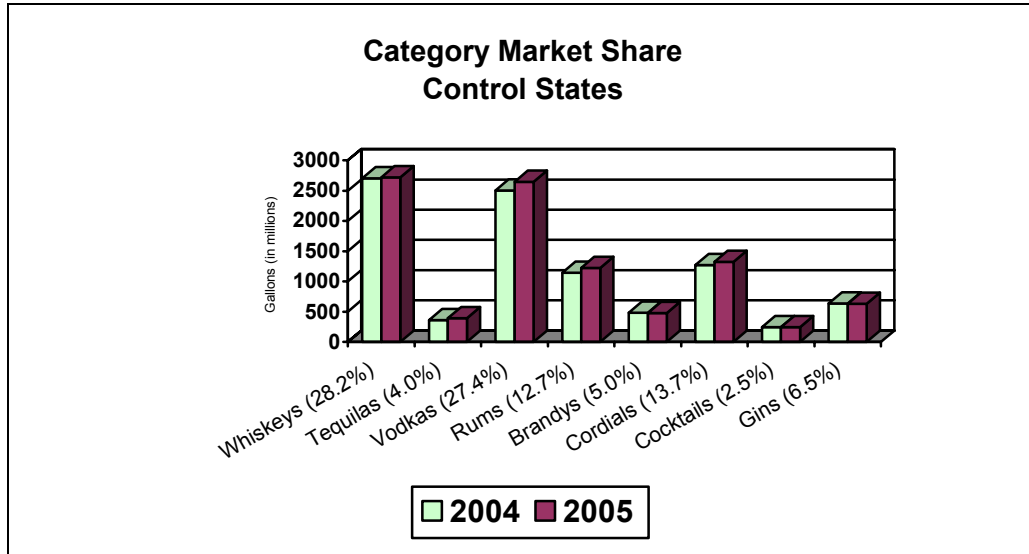
Dollar Sales

Since the 1996 fiscal year, there has been a 46.7% increase in dollar sales from \$566.1m in FY 1996 to \$830.6m in FY 2005. News groups are reporting that consumers are enamored with a wide variety of flavors. They are drinking fruit flavored products, products mixed with juices and colorful cocktails. The industry has responded with a broad spectrum of choices. One of the leading industry research groups reports that consumers are enjoying super premium and ultra super premium brands, and are willing to pay more for these. Classic cocktail drinks have also made a comeback in the United States. New products have been introduced into the market at a fast pace in the last year.

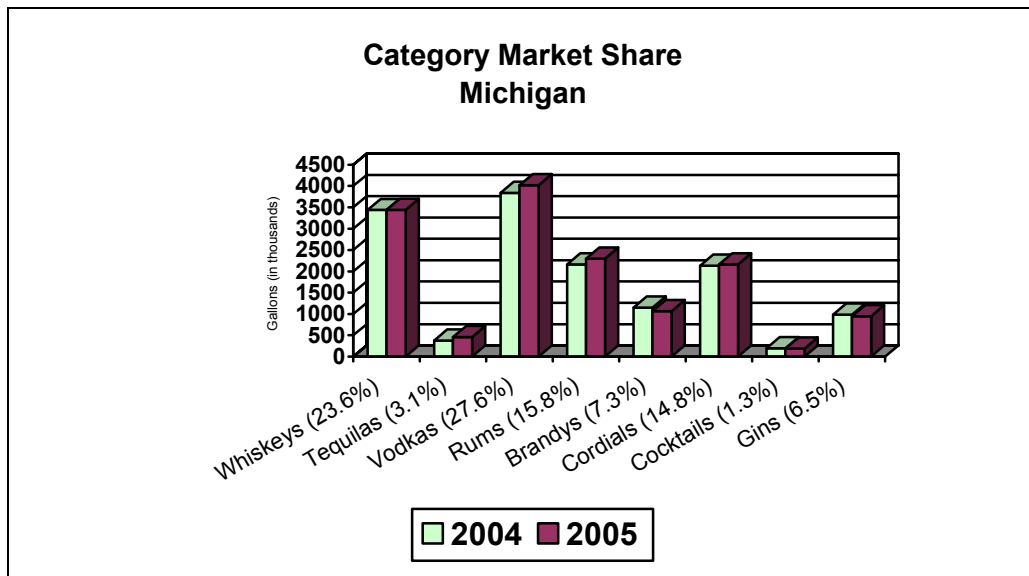


Case Sales

The 10-year case sales history graph shows an increase in case sales every year since FY 1996. This trend continued in 2004-2005 with sales of 6,110,122 cases. This is an increase of 23.3% above the FY 1996 cases sales figure of 4,955,779. However, these increases do not parallel the increase in dollar sales over the last 10 years. They are much smaller. This could be due, in part, to people consuming more higher-priced premium and super premium brand items.



Other control states and Michigan consumer preferences are very similar. Whiskeys and vodkas are the two most popular categories, comprising 55.6 percent of the control states market share and 51.2 percent of the Michigan market share. Vodka has been the most popular category in Michigan for the last four years, with new fruit-flavored products spurring the category's growth. New generations of drinkers are accustomed to a wide variety of flavors in foods and beverages and this desire has carried over into their choice of alcohol drinks. Vodka's versatility and mixability allow consumers more variety of flavors.



Distilled Spirits

The Michigan Liquor Control Commission is, by law, the wholesaler of all spirits in Michigan. Suppliers request approval from the Commission to have products available for sale in Michigan, distributed by the Commission.

There are almost 5,000 products available for sale by the Commission. The Commission's Liquor Price List is available in xls and pdf formats on the Internet at: <http://www.michigan.gov/dleg>. Click on "Liquor Control" from the list on the left of the screen. Then select "Publications" from the next list and click on "Spirit Ordering" and select a format. To search for specific product information, click on "Searchable Pricebook" under Online Tools in the lower right side of the screen on the MLCC homepage.

Licenses may order their distilled spirits through the State's Internet ordering system. They may also order through individual Authorized Distribution Agents (ADAs). There are currently four ADAs: General Wine and Liquor, National Wine and Spirits, Trans-Con, and Chinese Import & Export.

The ADAs assemble and deliver orders to the licensees on behalf of the Liquor Control Commission. Licensees receive free delivery once a week provided they meet the one case minimum order requirement and adhere to order day assignments.

All proceeds from the sale of liquor go to the State of Michigan, and all profits are transferred to the State Treasury.

The Michigan Liquor Control Commission
PRICE ANALYSIS OF SAMPLE 750 ml SPIRITS
 Retail Price to Consumer with 65% Markup by MLCC = \$10.01

| | |
|--|----------------|
| Liquor Tax | \$1.21 |
| Distribution | |
| 1.85% Specific Tax (LPRF*) | .16 |
| 4% Specific Tax (Convention Facilities) | .35 |
| 4% Specific Tax (School Aid) | .35 |
| 4% Specific Tax (General Fund) | .35 |
| <hr/> | |
| Licensee Profit | \$1.50 |
| (through discount) | |
| <hr/> | |
| LCC Profit | \$1.97 |
| (Net after Licensee discount) | |
| <hr/> | |
| Federal Excise Tax | \$2.14 |
| (\$13.50 per proof gallon, paid by distillery or importer) | |
| <hr/> | |
| Distillery or Importer | \$3.19 |
| <hr/> | |
| TOTAL PRICE: | \$10.01 |



| <u>Cost of Distribution</u> | <u>Amount</u> | <u>% of Total</u> |
|----------------------------------|----------------|-------------------|
| Federal Government | 2.14 | 21.4 |
| Distillery | 3.19 | 31.8 |
| State Government: | | |
| MLCC | 1.97 | 19.7 |
| Specific Taxes | 1.21 | 12.1 |
| Liquor License Profit (Discount) | 1.50 | 15.0 |
| TOTAL | \$10.01 | 100.0 |
| *Liquor Purchase Revolving Fund | | |

Beer - Wine - Mixed Spirits

The wholesaler market for beer, wine and mixed spirit drinks is a franchised market in Michigan. Territorial agreements are made between supplier and wholesaler to cover the specific geographic areas of the state.

Tax Rate by Type of Alcohol Beverage

| | |
|----------------------------------|---|
| Beer ----- | \$6.30 per 31 gallon barrel, pro-rated |
| Wine ----- | \$.135 per liter (16% alcohol or less by volume) \$.20 per liter (more than 16% alcohol by volume) |
| Mixed Spirit Drinks ----- | \$.48 per liter |

1995-2005 Michigan Apparent Per Capita Alcohol Beverage Consumption in Gallons

| Year | Population (Estimated) | Beer | Spirits | Wine | Mixed Spirit Drinks |
|-------------|-------------------------------|-------------|----------------|-------------|----------------------------|
| 1995 | 9,537,948 | 21.87 | 1.30 | 1.31 | 0.03 |
| 1996 | 9,594,350 | 21.49 | 1.30 | 1.36 | 0.04 |
| 1997 | 9,779,984 | 20.84 | 1.26 | 1.35 | 0.03 |
| 1998 | 9,817,242 | 21.02 | 1.28 | 1.41 | 0.03 |
| 1999 | 9,864,000 | 21.04 | 1.30 | 1.41 | 0.04 |
| 2000 | 9,938,000 | 21.15 | 1.33 | 1.50 | 0.05 |
| 2001 | 10,006,000 | 21.11 | 1.32 | 1.47 | 0.05 |
| 2002 | 10,050,000 | 20.76 | 1.33 | 1.42 | 0.04 |
| 2003 | 10,080,000 | 20.92 | 1.37 | 1.61 | 0.03 |
| 2004 | 10,113,000 | 20.87 | 1.42 | 1.71 | 0.03 |
| 2005 | 10,121,000 | 20.59 | 1.44 | 1.72 | 0.03 |

Per Capita Consumption

Apparent per capita consumption (volume consumed divided by the estimated population) is often used to determine consumer preferences among the types of alcohol beverages as well as being associated with public health and safety statistics.

For the last several years, Michigan parallels the national trend to consume more wine and distilled spirits and less beer. Wine consumption has increased due to the perception of heart-healthy benefits. Distilled spirits

consumption has increased due to strong product images among young adults. Women in particular prefer the taste of wine and distilled spirits. A Morgan Stanley Report said that sales of wine are expected to grow nationally 3.5% a year and distilled spirits 2.0% a year over the next five years, as opposed to a 0.5% a year beer sales growth over the next five years. Michigan may or may not mirror that projection.

MLCC TAX AND SALES STATISTICS

| | <u>Collection of Taxes</u> | | | <u>Sales in Barrels/Liters</u> | | |
|--------------|-----------------------------------|----------------|-----------------------------|---------------------------------------|----------------|-----------------------------|
| | <u>2004-05</u> | <u>2003-04</u> | <u>Increase/ (Decrease)</u> | <u>2004-05</u> | <u>2003-04</u> | <u>Increase/ (Decrease)</u> |
| Beer | \$41,949,026 | \$42,646,537 | \$ (697,511) | Barrels of Beer 6,721,468 | 6,807,147 | (85,679) |
| Wine | 9,010,110 | 8,864,020 | 146,090 | Liters of Wine 66,022,306 | 65,417,883 | 604,423 |
| MSD* | 526,558 | 587,776 | (61,218) | Liters of MSD* 1,065,146 | 1,237,451 | (172,305) |
| TOTAL | \$51,485,694 | \$52,098,333 | \$ (612,639) | | | |

* Mixed Spirit Drinks

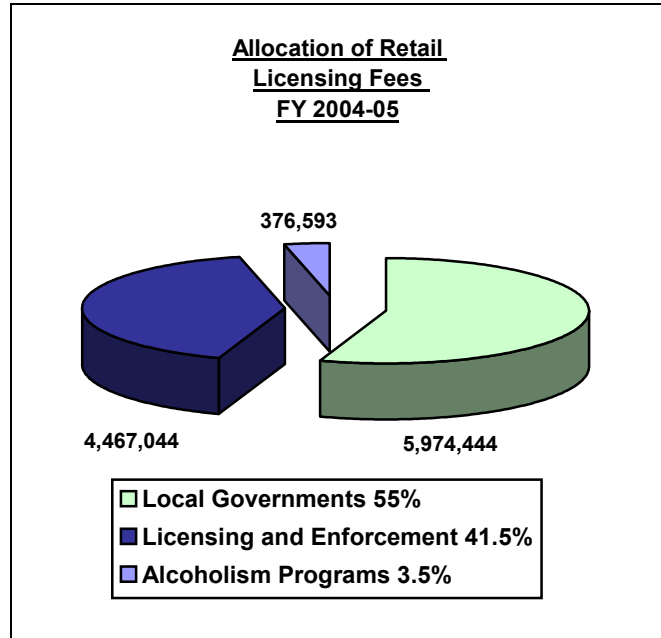
Control

Licensing

The Michigan Liquor Control Commission licenses all retailers, wholesalers and other individuals or businesses involved in the manufacture, purchase, sale, or use of alcohol beverages.

Nearly 16,000 retail businesses, including bars, grocery stores, restaurants, hotels, convenience stores and pharmacies have one or more active licenses to sell alcohol beverages. The MLCC also issues special licenses to non-profit organizations for fundraising events.

In addition to retail licenses, the MLCC had almost 6,200 issued licenses to manufacturers and other agents. All retail licenses, and most non-retail licenses, must be renewed no later than April 30th of each year.



The types of licenses available and licensing requirements are set by state law and the administrative rules of the Commission. The number of certain types of licenses available is governed by population quota for the local governmental unit.

Retail license fees are distributed according to state statute. As shown above, 55% of the returnable retail licensing fees collected by the MLCC are earmarked for local governments. The MLCC collected \$13.0 million in retail license and transfer fees in fiscal year 2004-05. This amount included \$10,818,081 in returnable retail license fees.

The Michigan Grape and Wine Industry Council receives the non-retail license fees collected by the MLCC amounting to \$645,309 this fiscal year.

Active Retail Liquor Licenses (by type)

On-Premise Licenses: Total 8420

Class C: 5892 Class C Resort: 1002 B-Hotel: 182 B-Hotel Resort: 145

(Bars/Restaurants/Hotels) Liquor by the glass, beer, wine, Mixed Spirit Drink

A-Hotel: 1 A-Hotel Resort: 0 Tavern: 150 Tavern Resort: 10

Beer and Wine only

Clubs: 1038

(Membership required) Liquor by the glass, beer, wine, Mixed Spirit Drink

Off-Premise Licenses: Total 7544

SDD: 3748 SDD-Resort: 197

Package Liquor Take-out

SDM: 3599

Beer and Wine Take out

Total Number of Retail Licenses (9/30/05): 15,964

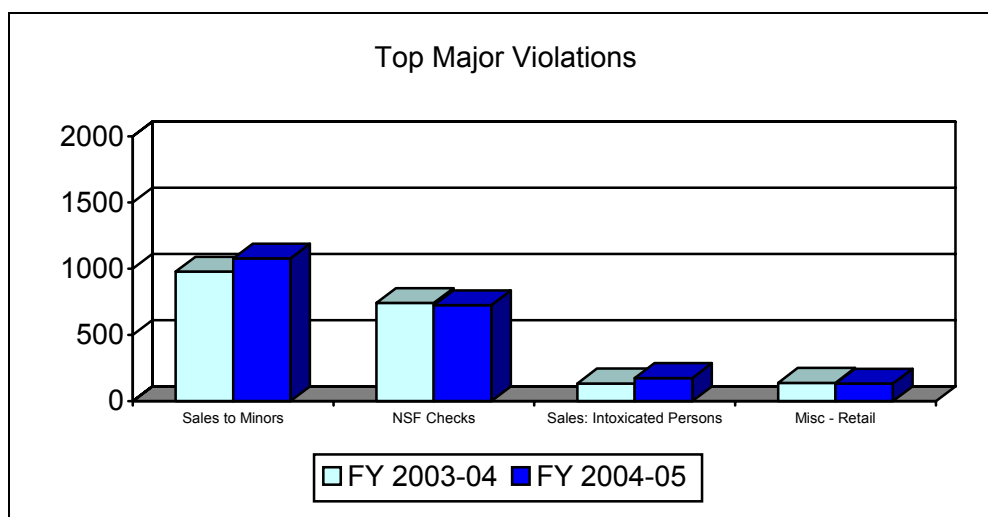
Control

Enforcement

The Enforcement staff is involved in training programs to meet the needs of retail licensees, beer and wine wholesalers, and law enforcement agencies.

The MLCC's enforcement officers regularly conduct surveillance operations in licensed premises as part of their efforts to ensure that the state's liquor laws and MLCC rules are being adhered to by liquor licensees. Their efforts to serve the citizens of the state often go unnoticed due to the nature of their job.

The Enforcement staff is responsible for investigating applicants for liquor licenses and assisting local, county and state law enforcement agencies with the enforcement of Michigan's liquor laws. Local law enforcement agencies submitted 1,116 liquor law violation reports in Fiscal Year 2004-2005. MLCC enforcement investigators submitted 1,326 violation reports in Fiscal Year 2004-2005.



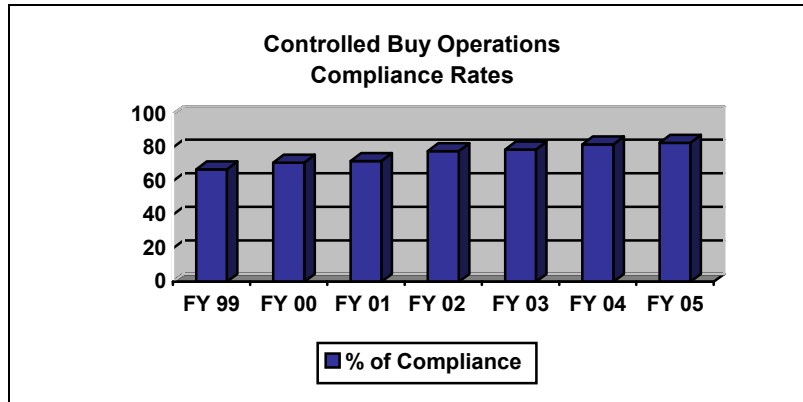
The violations that the Enforcement Division administers are varied. In addition to the top four violations listed in the chart above, some of the other violations that Enforcement handles are as follows: illegally obtain or transfer license, licensee or employee convicted of illegal act, nudity, operating other than legal hours, gambling or possession of gaming equipment and controlled substances/drugs paraphernalia.

Enforcement & Underage Drinking

In an effort to minimize underage drinking, the Enforcement Division conducts controlled buy operations, also called decoy sting operations. During a controlled buy operation, a minor will attempt to purchase alcohol from a retailer while the transaction is observed by an undercover enforcement officer. A sale results in a violation of the liquor law and subsequent fine. The Commission has a policy of zero tolerance for sale of alcohol to minors and uses the controlled buy operation as a tool to reinforce this commitment.

Control

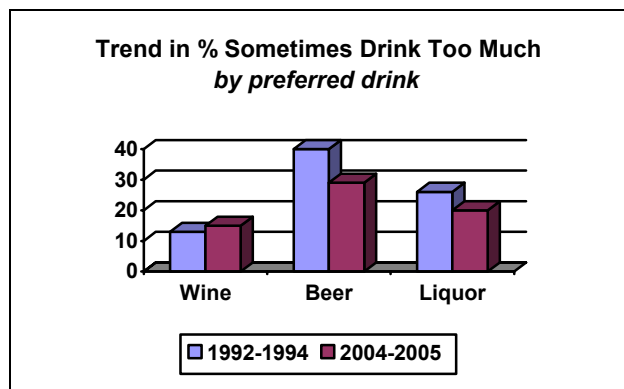
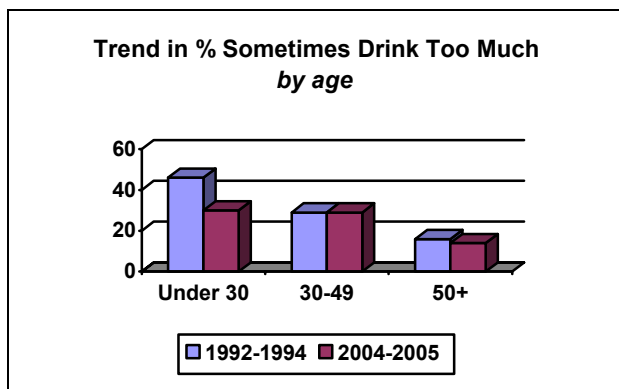
During Fiscal Year 2004-05, MLCC enforcement officers conducted 2,027 controlled buy operations and wrote 350 violations for selling to minors, meaning 17% of stops resulted in a violation. This compares to last fiscal year, when 18% of controlled buys resulted in a violation.



Enforcement & Excessive Drinking

Enforcement is also working diligently to reduce excessive drinking among all drinkers. The percentage of Americans who admit they sometimes drink too much has averaged 23% over the last decade. This is down from an average of 30% between 1985 and 1994. However, since 1994, alcohol-related highway deaths have not varied much, correlating with the little-changed 23% overdrinking average over the last decade.

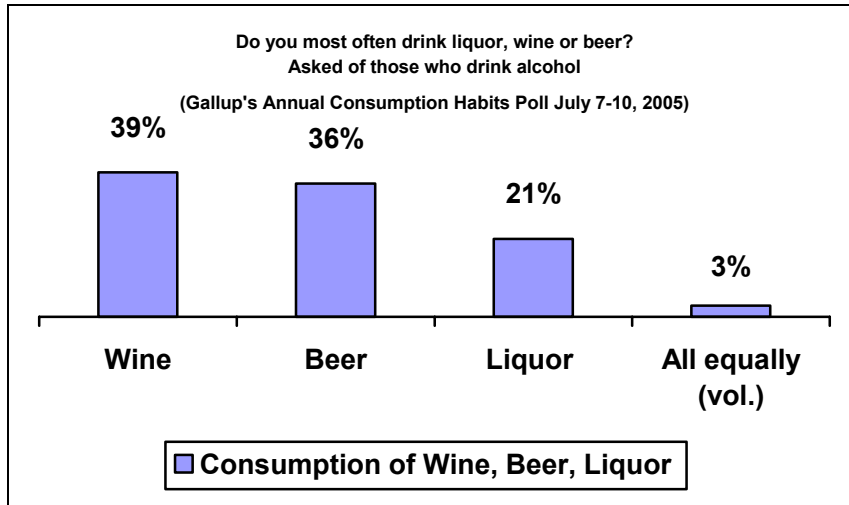
One thing that Enforcement is doing to halt overdrinking is issuing violations to licensees who serve liquor to patrons who have had too much to drink. When Enforcement observes a violation or receives a complaint of such an instance, it contacts the appropriate police department to investigate the complaint. Based on the department's findings, a violation is issued or a hearing is scheduled.



National Trends and Statistics

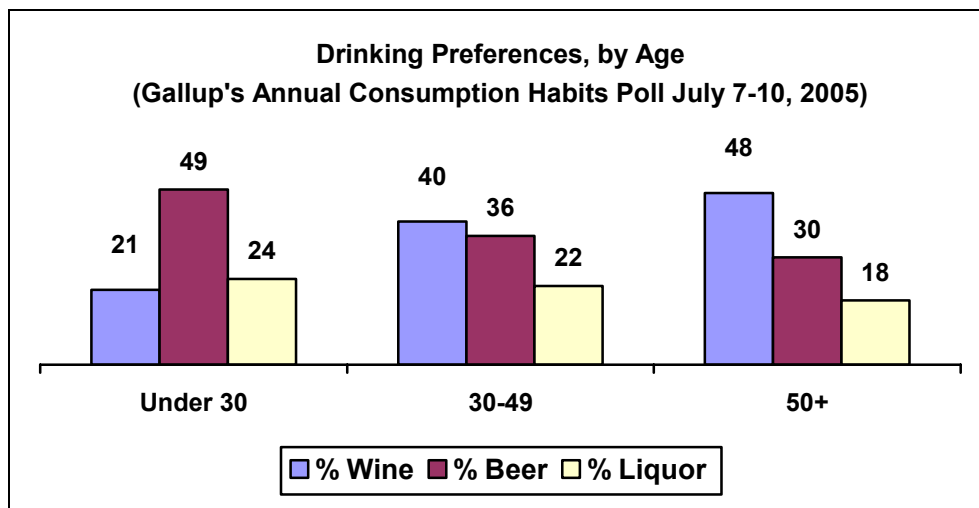
Liquor Popularity

According to a Gallup poll, 63% of Americans say they drink alcohol, consistent with the rate recorded for most of the last six decades. Liquor has consistently ranked third as the American drink of choice since 1992, but is gaining ground.



Over the last ten years, the young adults' (under aged 30) preference for liquor has more than doubled from 13% (1992/1994) to 32% (2004/2005). Among middle-aged Americans (aged 30-49), liquor preference has also gained momentum, up 4% from 17% (1992/1994) to 21% (2004/2005). The percentage of older Americans who prefer liquor has declined from 30% (1992/1994) to 20% (2004/2005).

The most current Gallup information regarding alcohol preference is as follows:



Michigan Department of Labor and Economic Growth

LIQUOR CONTROL COMMISSION

FINANCIAL REPORTS FOR THE LIQUOR

PURCHASE REVOLVING FUND

(Unaudited)

For the Fiscal Year Ended September 30, 2005

**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
UNAUDITED COMPARATIVE STATEMENT OF NET ASSETS
FISCAL YEARS ENDED SEPTEMBER 30**

| | <u>2005</u> | <u>2004</u> |
|---|---------------------------|---------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Imprest Cash | \$700 | \$700 |
| Equity in Common Cash | 57,476,615 | 60,064,019 |
| Liquor Inventory | 3,213,966 | 3,500,643 |
| Prepaid Distribution Costs of Inventory | 248,805 | 272,435 |
| Other Assets | <u>7,037,844</u> | <u>7,097,566</u> |
| TOTAL ASSETS | <u>\$67,977,930</u> | <u>\$70,935,363</u> |
| LIABILITIES & FUND EQUITY | | |
| CURRENT LIABILITIES | | |
| Warrants Outstanding | \$652,660 | \$6,677,425 |
| Accounts Payable and Other Liabilities | 61,337,306 | 58,522,015 |
| Amount Due to Other Funds | 112,575 | 76,502 |
| Current Compensated Absences | <u>172,120</u> | <u>196,107</u> |
| TOTAL CURRENT LIABILITIES | \$62,274,661 | \$65,472,049 |
| LONG-TERM LIABILITIES | | |
| Long Term Compensated Absences | <u>827,530</u> | <u>587,575</u> |
| TOTAL LIABILITIES | <u>\$63,102,191</u> | <u>\$66,059,624</u> |
| NET ASSETS | | |
| Unrestricted | <u>\$4,875,739</u> | <u>\$4,875,739</u> |
| TOTAL NET ASSETS | <u><u>\$4,875,739</u></u> | <u><u>\$4,875,739</u></u> |

The Notes to Financial Statements section is an integral part of these financial statements.

**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
UNAUDITED COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FISCAL YEARS ENDED SEPTEMBER 30**

| | <u>2005</u> | <u>2004</u> |
|--|-------------------------------|-------------------------------|
| OPERATING REVENUES | | |
| Gross Sales | \$830,610,782 | \$813,799,608 |
| Less: Discounts Allowed | <u>141,682,647</u> | <u>138,407,623</u> |
| PROCEEDS - SALE OF LIQUOR | \$688,928,135 | \$675,391,985 |
| Miscellaneous Revenue | 34,850 | 354,775 |
| Revenue for Other Funds | <u>(35,609)</u> | <u>0</u> |
| TOTAL OPERATING REVENUES | <u>\$688,927,376</u> | <u>\$675,746,760</u> |
| OPERATING EXPENSES | | |
| Cost of Goods Sold | \$503,364,426 | \$493,271,486 |
| Distribution Costs Paid to Suppliers | 40,950,541 | 40,010,087 |
| Commission and DLEG Administration | 372,145 | 441,964 |
| Management Support | 2,499,637 | 2,314,649 |
| Licensing and Enforcement (1) | 4,054,660 | 3,237,872 |
| Compensated Absences | 215,968 | 306,252 |
| DLEG Operating Expenses | 3,942,459 | 3,775,785 |
| DIT Information Technology Services | 1,301,155 | 1,324,970 |
| Attorney General Services (2) | <u>675,580</u> | <u>0</u> |
| TOTAL OPERATING EXPENSES | <u>\$557,376,571</u> | <u>\$544,683,065</u> |
| OPERATING INCOME (LOSS) | <u>\$131,550,805</u> | <u>\$131,063,695</u> |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Specific Tax, Liquor 1.85% | \$12,194,174 | \$11,988,744 |
| Interest Revenue | 2,519,912 | 1,127,167 |
| Non-Operating Revenue | <u>50,546</u> | <u>113</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>\$14,764,632</u> | <u>\$13,116,024</u> |
| INCOME (LOSS) BEFORE TRANSFERS | <u>\$146,315,437</u> | <u>\$144,179,719</u> |
| TRANSFERS | | |
| Income Transferred to General Fund | (\$142,196,395) | (\$139,445,345) |
| Other Transfers | <u>(4,119,042)</u> | <u>(4,734,374)</u> |
| TOTAL TRANSFERS IN (OUT) | <u>(\$146,315,437)</u> | <u>(\$144,179,719)</u> |
| Change in Net Assets | \$0 | \$0 |
| Net Assets - Beginning of Fiscal Year | <u>4,875,739</u> | <u>4,875,739</u> |
| TOTAL NET ASSETS - END OF FISCAL YEAR | <u>\$4,875,739</u> | <u>\$4,875,739</u> |

Notes:

(1) Includes the Revolving Fund portion only.

(2) Reported as Other Transfers in 2004 and 1st Quarter of Fiscal Year 2005.

The Notes to Financial Statements section is an integral part of these financial statements.

**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
UNAUDITED STATEMENT OF CHANGES IN ASSETS AND TRANSFERS
FISCAL YEARS ENDED SEPTEMBER 30**

| | <u>2005</u> | <u>2004</u> | <u>INCREASE (DECREASE)</u> |
|------------------------------------|---------------------------|---------------------------|--------------------------------|
| ASSETS AVAILABLE | | | |
| Beginning Assets | \$4,875,739 | \$4,875,739 | \$0 |
| Total Operating Revenues | 688,927,376 | 675,746,760 | 13,180,616 |
| Total Non-Operating Revenues | <u>14,764,632</u> | <u>13,116,024</u> | <u>1,648,608</u> |
| TOTAL ASSETS AVAILABLE | <u>\$708,567,747</u> | <u>\$693,738,523</u> | <u>\$14,829,224</u> |
| ALLOCATION OF ASSETS | | | |
| Income Transferred to General Fund | \$142,196,395 | \$139,445,345 | \$2,751,050 |
| Other Transfers | 4,119,042 | 4,734,374 | (615,332) |
| Total Operating Expenses | <u>557,376,571</u> | <u>544,683,065</u> | <u>12,693,506</u> |
| TOTAL ALLOCATION OF ASSETS | <u>\$703,692,008</u> | <u>\$688,862,784</u> | <u>\$14,829,224</u> |
| ENDING ASSETS | <u><u>\$4,875,739</u></u> | <u><u>\$4,875,739</u></u> | <u><u>\$0</u></u> |

The Notes to Financial Statements section is an integral part of these financial statements.

**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
UNAUDITED STATEMENT OF CHANGES IN CASH FLOW
FISCAL YEAR ENDED SEPTEMBER 30, 2005**

| | NET CHANGE |
|--|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from Customers | \$688,927,376 |
| Payments to Employees and for Administrative Expenses | (11,840,630) |
| Payments to Suppliers | (541,283,708) |
| Other Receipts | 406,103 |
| Other Payments | (1,220,974) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$134,988,166 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Non-Operating Revenues | \$50,546 |
| Specific Tax on Spirits | 12,194,174 |
| Transfers to Other Funds | (146,315,437) |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | (\$134,070,717) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and Dividends on Investments | \$2,519,912 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | \$2,519,912 |
| Net Cash Provided (Used) - All Activities | \$3,437,362 |
| Cash and Cash Equivalents at Beginning of Year | 53,387,294 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$56,824,656 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS | |
| Per Statement of Net Assets Classifications: | |
| Cash | \$700 |
| Equity in Common Cash | 57,476,616 |
| Warrants Outstanding | (652,660) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$56,824,656 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | |
| Operating Income (Loss) | \$131,550,804 |
| Net Changes in Assets and Liabilities: | |
| Inventories | 286,677 |
| Other Assets (Net) | 83,353 |
| Accounts Payable and Other Liabilities | 3,067,332 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$134,988,166 |

The Notes to Financial Statements section is an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Significant Accounting Policies

A. Reporting Entity

These financial statements reflect the results of the Liquor Purchase Revolving Fund financial transactions. The Michigan Liquor Control Commission, in the Department of Labor and Economic Growth (DLEG), is primarily responsible for the fund.

The Liquor Purchase Revolving Fund was authorized by P.A. 259 of 1941. Under state monopoly, liquor is sold at wholesale by the State of Michigan, and at retail through various licensees. The State began using Authorized Distribution Agents to warehouse and deliver liquor on January 23, 1997. The fund accounts for the sale, replenishing and transportation of the liquor stock from the suppliers to the retail licensees.

As required by statute, the net income earned by the Liquor Purchase Revolving Fund is transferred to the General Fund throughout the year.

The notes accompanying these financial statements relate directly to the Liquor Purchase Revolving Fund. The State of Michigan Comprehensive Annual Financial Report provides general disclosures regarding the State Treasurer's common cash fund, retirement benefits, worker's compensation, unemployment compensation and litigations.

Amounts may not match between schedules due to rounding.

B. Basis of Accounting

The financial data presented in the Liquor Purchase Revolving Fund reports have been prepared on an accrual basis in accordance with all Governmental Accounting Standards Board (GASB) pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

C. Inventory

Inventory is stored and handled by private Authorized Distribution Agents on behalf of the Commission. The inventory is valued at the latest quoted price. Inventory is purchased daily in amounts sufficient to fill the orders received the prior day.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. Retirement Contributions

All classified Liquor Control Commission employees are members of the State Employees Retirement System. During the 2005 fiscal year, \$1,517,402.02 was paid into the Retirement Fund on behalf of the employees. All new employees hired after March 30, 1997 participate in a defined contribution plan. Employees hired before March 30, 1997 are covered by a defined benefits plan unless they chose to convert to the defined contribution plan during 1997.

NOTE 3. Employees' Compensation, Absences and Longevity Benefits

The amounts owed for accumulated leave benefits and longevity are recorded as a liability in these financial reports. Salaries, wages and employee benefits are appropriated in and paid from the Liquor Purchase Revolving Fund.

NOTE 4. Interest Earnings

For investment purposes, the Liquor Purchase Revolving Fund is kept in the State Treasurer's Common Cash Pool. The Liquor Purchase Revolving Fund began receiving credit for the interest earned on its cash balances deposited with the State Treasurer effective April 14, 1998.

NOTE 5. Distribution Costs Paid to Suppliers

This is the amount paid directly to the liquor suppliers by the MLCC for the Authorized Distribution Agents' warehousing and delivery of spirits to retail licensees. The MLCC paid \$6.70 per case for each case purchased through the fiscal year. The suppliers were required to add \$1.08 per case to the state's payment and pay at least \$7.78 per case to the Commission's Authorized Distribution Agents.

Michigan Department of Labor and Economic Growth

LIQUOR CONTROL COMMISSION

Other Financial Schedules – All Funds

(Unaudited)

For the Fiscal Year Ended September 30, 2005

**MICHIGAN LIQUOR CONTROL COMMISSION
ALL FUNDS
UNAUDITED COMPARATIVE STATEMENT OF OPERATIONS
FISCAL YEARS ENDED SEPTEMBER 30**

| | <u>2005</u> | <u>2004</u> | <u>Increase (Decrease)</u> |
|--|-----------------------------|-----------------------------|--------------------------------|
| LIQUOR SALES | | | |
| Gross Sales (1) | \$830,610,782 | \$813,799,608 | \$16,811,174 |
| Less: Discounts Allowed | <u>141,682,647</u> | <u>138,407,623</u> | <u>3,275,024</u> |
| PROCEEDS - SALE OF LIQUOR | \$688,928,135 | \$675,391,985 | \$13,536,150 |
| Less: Cost of Goods Sold | <u>503,364,426</u> | <u>493,271,486</u> | <u>10,092,940</u> |
| GROSS REVENUE FROM SALE OF LIQUOR | <u>\$185,563,709</u> | <u>\$182,120,499</u> | <u>\$3,443,210</u> |
| OTHER REVENUE | | | |
| Miscellaneous Revenue | \$34,850 | \$354,775 | (\$319,925) |
| Non-Operating Revenue | 50,546 | 113 | 50,433 |
| Interest Revenue | 2,519,912 | 1,127,167 | 1,392,745 |
| Revenue for Other Funds | <u>(35,609)</u> | <u>0</u> | <u>(35,609)</u> |
| TOTAL OTHER REVENUE | <u>\$2,569,699</u> | <u>\$1,482,055</u> | <u>\$1,087,644</u> |
| TOTAL REVENUE | \$188,133,408 | \$183,602,554 | \$4,530,854 |
| Less: Distribution Costs Paid to Suppliers | <u>40,950,541</u> | <u>40,010,087</u> | <u>940,454</u> |
| INCOME FROM LIQUOR MERCHANDISING | <u>\$147,182,867</u> | <u>\$143,592,467</u> | <u>\$3,590,400</u> |
| MANAGEMENT EXPENSES | | | |
| Commission and DLEG Administration | \$372,145 | \$441,964 | (\$69,819) |
| Management Support (2) | 2,608,215 | 2,463,183 | 145,032 |
| Licensing and Enforcement (2) | 9,900,354 | 8,889,725 | 1,010,629 |
| DLEG Services (Excluding MLCC Rent) | 7,063,090 | 6,756,105 | 306,985 |
| DIT Information Technology Services | 1,301,155 | 1,324,970 | (23,815) |
| Attorney General | 897,900 | 818,319 | 79,581 |
| Auditor General | 11,300 | 51,600 | (40,300) |
| Civil Service - Personnel | 58,739 | 51,356 | 7,383 |
| Human Resources | 29,784 | 0 | 29,784 |
| Management and Budget | 86,400 | 80,600 | 5,800 |
| History, Arts & Libraries | 0 | 22,000 | (22,000) |
| Compensated Absences | 215,968 | 306,252 | (90,284) |
| Less: Transfers Not Related to MLCC Operations (3) | <u>3,710,500</u> | <u>3,710,500</u> | <u>0</u> |
| TOTAL MANAGEMENT EXPENSES | <u>\$18,834,550</u> | <u>\$17,495,574</u> | <u>\$1,338,976</u> |
| INCOME FROM OPERATIONS (Excluding Taxes and Grants) | \$128,348,317 | \$126,096,893 | \$2,251,424 |
| Specific Tax, Liquor 1.85% (Off Premise) | 12,194,174 | 11,988,744 | 205,430 |
| Revenue Collected for Other Funds | <u>166,108,170</u> | <u>164,087,146</u> | <u>2,021,024</u> |
| TOTAL CURRENT EARNINGS AND REVENUE | <u>\$306,650,661</u> | <u>\$302,172,783</u> | <u>\$4,477,878</u> |
| Number of Cases Sold | 6,110,122 | 6,029,155 | 80,967 |
| Number of Sales Days | 261 | 262 | (1) |

Notes:

(1) This figure is comprised of:

| | | | |
|-------------|---------------|---------------|--------------|
| Off Premise | \$658,793,041 | \$646,949,527 | \$11,843,514 |
| On Premise | 170,605,791 | 165,515,721 | 5,090,070 |
| Other | 1,211,950 | 1,334,360 | (122,410) |

(2) Total expenses per page 21 less any equipment purchases.

(3) Grants to Cities - Fire Protection

**MICHIGAN LIQUOR CONTROL COMMISSION
ALL FUNDS
UNAUDITED COMPARATIVE SCHEDULE OF REVENUE COLLECTED
FISCAL YEARS ENDED SEPTEMBER 30**

| | <u>2005</u> | <u>2004</u> | <u>INCREASE (DECREASE)</u> |
|---|----------------------|----------------------|--------------------------------|
| GENERAL FUND - GENERAL PURPOSE | | | |
| Excise Tax, Beer | \$41,949,026 | \$42,646,537 | (\$697,511) |
| Specific Tax, Liquor 4% | 33,111,943 | 32,404,798 | 707,145 |
| Excise Tax, Wine | 9,010,110 | 8,864,020 | 146,090 |
| Excise Tax, Mixed Spirit Drink | 526,558 | 587,776 | (61,218) |
| Fines & Costs | 1,171,473 | 1,000,587 | 170,886 |
| Miscellaneous Revenue | 43,859 | 57,680 | (13,821) |
| TOTAL GENERAL FUND - GENERAL PURPOSE | <u>\$85,812,969</u> | <u>\$85,561,398</u> | <u>\$251,571</u> |
| GENERAL FUND - RESTRICTED | | | |
| RETAIL LICENSE FEES: | | | |
| 55% To Local Governments | \$5,974,444 | \$5,572,483 | \$401,961 |
| 41.5% To Licensing & Enforcement | 4,467,044 | 4,732,291 | (265,247) |
| 3.5% To Alcoholism Prevention Programs | 376,593 | 397,186 | (20,593) |
| Additional Resort License Fees | 57,751 | 0 | 57,751 |
| License Transfer Fees | 694,171 | 607,184 | 86,987 |
| Sunday Sales Fees | 1,408,758 | 1,447,662 | (38,904) |
| Non-Retail License Fees-Wine Industry Council | 645,309 | 448,927 | 196,382 |
| Liquor Control Act Sales | 4,790 | 6,943 | (2,153) |
| Inspection Fees | 306,991 | 302,251 | 4,740 |
| Specific Tax, Liquor 4%-Tourism & Conv. Facility | 33,178,405 | 32,515,620 | 662,785 |
| Miscellaneous Revenue | 69,002 | 90,403 | (21,401) |
| TOTAL GENERAL FUND - RESTRICTED | <u>\$47,183,258</u> | <u>\$46,120,950</u> | <u>\$1,062,308</u> |
| SCHOOL AID FUND | | | |
| Specific Tax, 4% | \$33,111,943 | \$32,404,798 | \$707,145 |
| TOTAL SCHOOL AID FUND | <u>\$33,111,943</u> | <u>\$32,404,798</u> | <u>\$707,145</u> |
| OTHER FUNDS REVENUE | <u>\$166,108,170</u> | <u>\$164,087,146</u> | <u>\$2,021,024</u> |
| LIQUOR PURCHASE REVOLVING FUND | | | |
| Specific Tax, Liquor 1.85% (Off Premise) | \$12,194,174 | \$11,988,744 | \$205,430 |
| Income From Operations (Excluding Taxes & Grants) (1) | 128,348,317 | 126,096,893 | 2,251,424 |
| LIQUOR PURCHASE REVOLVING FUND REVENUE | <u>\$140,542,491</u> | <u>\$138,085,637</u> | <u>\$2,456,854</u> |
| TOTAL REVENUE COLLECTED | <u>\$306,650,661</u> | <u>\$302,172,783</u> | <u>\$4,477,878</u> |

Note:

(1) Income from Operations (Page 19) after all operating expenses including General Fund portion of Licensing and Enforcement.

**MICHIGAN LIQUOR CONTROL COMMISSION
ALL FUNDS
UNAUDITED SCHEDULE OF EXPENSES BY TYPE AND ACCOUNT
FISCAL YEARS ENDED SEPTEMBER 30**

| | COMMISSION AND DLEG ADMINISTRATION(1) | MANAGEMENT SUPPORT | LICENSING & ENFORCEMENT | TOTAL 2005 | TOTAL 2004 |
|---|---|-----------------------|----------------------------|---------------------|---------------------|
| MLCC APPROPRIATED EXPENSES | | | | | |
| Salaries & Wages | \$372,145 | \$1,294,152 | \$5,506,031 | \$7,172,328 | \$6,346,336 |
| Longevity & Insurance | 0 | 339,754 | 1,164,622 | 1,504,376 | 1,443,708 |
| Retirement & FICA | 0 | 531,298 | 1,768,754 | 2,300,052 | 1,744,456 |
| SUBTOTAL | <u>\$372,145</u> | <u>\$2,165,204</u> | <u>\$8,439,407</u> | <u>\$10,976,756</u> | <u>\$9,534,500</u> |
| Communications | \$0 | \$29,134 | \$102,203 | \$131,337 | \$123,415 |
| Travel | 0 | 55,860 | 273,738 | 329,598 | 316,449 |
| Utilities | 0 | 15,911 | 2,611 | 18,522 | 18,465 |
| Contractual Services | 0 | 82,658 | 303,435 | 386,093 | 777,764 |
| Supplies & Materials | 0 | 129,256 | 176,551 | 305,807 | 185,567 |
| Equipment Replacement, Additions & Rentals | 0 | 21,615 | 121,118 | 142,733 | 60,093 |
| Misc - Unemployment Insurance Claims | 0 | 0 | 0 | 0 | 9,412 |
| SUBTOTAL | <u>\$0</u> | <u>\$334,434</u> | <u>\$979,656</u> | <u>\$1,314,090</u> | <u>\$1,491,165</u> |
| TOTAL MLCC APPROPRIATED EXPENSES | <u>\$372,145</u> | <u>\$2,499,638</u> | <u>\$9,419,063</u> | <u>\$12,290,846</u> | <u>\$11,025,665</u> |
| OPERATING TRANSFERS OUT & OTHER EXPENSES | | | | | |
| Rent and Building Occupancy (2) | \$0 | \$108,577 | \$481,291 | \$589,868 | \$730,181 |
| Other Operating Transfers Out (3) | 0 | 0 | 0 | 9,498,532 | 9,104,949 |
| TOTAL OPERATING TRANSFERS OUT & OTHER EXPENSES | <u>\$0</u> | <u>\$108,577</u> | <u>\$481,291</u> | <u>\$10,088,400</u> | <u>\$9,835,130</u> |
| GRAND TOTAL | <u>\$372,145</u> | <u>\$2,608,215</u> | <u>\$9,900,354</u> | <u>\$22,379,246</u> | <u>\$20,860,795</u> |

Note:

- (1) Fringe benefits and other expenses are reported in Management Support as appropriated by the Legislature.
(2) Rent and Building Occupancy amounts are appropriated in Management Services, Department of Labor and Economic Growth.
(3) Transfer amounts are appropriated in other departments and bureaus. They are not allocated to the divisions but are included in the totals.